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Mr. Chairman, Congressman Spratt, I am very pleased to be invited home. In my testimony today, I'd like to make three points about the congressional budget process and pending proposals to alter it.

First, the congressional budget process was originally designed to make Congress an equal partner with the President. Unless you think Presidents are too weak and Congress too powerful, you should resist the many proposals that would weaken Congress and strengthen the presidency.

Second, the Congressional Budget Act has, perhaps unexpectedly, allowed Presidents to get away with budgets that are incomplete, irresponsible, or both. President Bush is especially guilty of this lack of leadership, but *every* recent President has designed partially phony budgets and then passed the buck to Congress.

Third, no budget process can *force* the President and Congress to enact deficit reduction. It is far better to design specific deficit reduction plans — specific program cuts and specific tax increases — and then use the budget process to enforce those enacted plans.

I will now briefly elaborate on these three points.

Congress and the President

To begin with, the congressional budget process was designed to alter the *relationship* between the President and Congress. When the Congressional Budget Act was enacted in 1974, its intent was to announce that the President's budget was not the only game in town; Congress could devise and adhere to its own budget plan. When I first arrived in Washington, the phrase "over budget" meant that Congress was considering legislation that cost more than the President had requested. The congressional budget process has changed the meaning of that phrase; now, "over budget" usually means "more costly than the congressional plan."

Given this history, it seems strange indeed, and probably inappropriate, for members of Congress to deliberately design "reform" plans that would weaken Congress vis a vis the President. Let me list some pending proposals that would weaken Congress and strengthen the President.

- **An automatic "continuing resolution,"** which would automatically extend the current level of appropriations into the next fiscal year if new appropriations bills were not enacted by October first. Such a proposal would make it far easier for a

President to justify vetoing an appropriations bill whenever he prefers the status quo to the increases or cuts approved by Congress.

- **A "joint" budget resolution**, which would give the President the authority to veto the congressional budget resolution. After a veto, the President's budget would be the only benchmark left standing. This proposal would work especially badly when different parties control the two branches of government.

- **An appropriations "lockbox.**" Under a lockbox proposal, a transient majority, through its vote on an appropriations amendment, can reduce for the entire year the amount allocated under a Congressional budget plan to the Appropriations Committee. This violates the first rule of politics: a deal is a deal. If the lockbox procedure were implemented, members of the Appropriations Committee would have far less reason to support any budget plan; budget gridlock would be more likely; again, the President's budget would be the only benchmark left standing.

- **Biennial budgeting.** The annual appropriations process is the one sure way that Congress can get the attention of the executive branch and push it to respond to specific Congressional concerns. Nothing awakens a cabinet secretary as rapidly and effectively as a threat to cut his staff.

- **Line-item vetoes, enhanced rescissions, and restrictions on omnibus legislation.** The President has the power to veto legislation if he does not agree with some aspect of it. Congress, in counterbalance, has the power to *package* legislation, which increases the likelihood that the President will sign legislation that contains a few policies that Congress desires but he does not. Line-item vetoes, enhanced rescissions, and restriction on omnibus legislation would each weaken the effectiveness of congressional packaging.

Has the Congressional Budget Act allowed Presidents to run and hide?

History demonstrates that that it is very hard to achieve *any* major deficit reduction without presidential leadership. Currently, President Bush is in a state of official denial, and perhaps self-denial as well. A little-known analysis contained in the President's own budget document reveals that under his own policies, the current shrinking of the deficit will be temporary. Table 13-2, on page 209 of OMB's *Analytical Perspectives*, shows that unsustainable and unmanageably large deficits will reappear – deficits that will cause the burden of debt service to consume an ever-increasing share of national income. (See table on page 3.) Specifically, OMB projects that under the administration's policies, the debt will grow from its current level of 39% of GDP to more than 100% of GDP by 2050 and about 250% of GDP by 2075. Of course, this cannot happen; tax increases, spending cuts, or both will have to be enacted before we reach national bankruptcy.

And yet the figures in this OMB table present too *rosy* a picture, if that is possible. OMB's extrapolations are based on the President's budget, which a) completely omits the costs of Iraq, Afghanistan, and the international war on terror, b) includes no costs in any year for relief from the Alternative Minimum Tax, and c) presumes that the role of domestic appropriations in the economy can be reduced over the next five years to a level that has not been seen since before the New Deal. These domestic cuts are so embarrassing that OMB programmed its computers to "white out" the program-by-program funding levels – though not the grand totals – for every year after the current year.

In my view, there will not be any major deficit reduction legislation unless President Bush stops denying reality and decides to scale back both his spending priorities and his tax cuts. Given the difficulty of deficit reduction, a willingness to negotiate directly with the leaders of both parties is probably necessary.

Table 13–2. LONG-RANGE MODEL RESULTS
(As a percent of GDP)

	1995	**2005**	**2015**	**2025**	**2035**	**2045**	**2055**	**2065**	**2075**
Receipts	18.5	16.8	18.5	19.1	19.6	20.2	20.9	21.5	22.0
Outlays:									
Discretionary	7.4	7.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Mandatory:									
Social Security	4.5	4.2	4.4	5.4	6.0	6.0	6.1	6.2	6.4
Medicare	2.1	2.4	3.3	4.6	6.0	7.0	7.9	9.1	10.4
Medicaid	1.2	1.5	1.9	2.1	2.3	2.6	2.8	3.0	3.3
Other	2.2	2.8	2.0	1.7	1.5	1.3	1.2	1.1	1.0
Subtotal, mandatory	10.1	10.9	11.6	13.8	15.8	16.9	18.0	19.5	21.2
Net Interest	3.2	1.5	1.9	2.0	3.1	4.8	6.9	9.7	13.3
Total outlays	20.7	20.3	19.4	21.8	24.8	27.6	30.8	35.1	40.4
Surplus or deficit (-)	–2.2	–3.5	–0.9	–2.7	–5.2	–7.4	–10.0	–13.6	–18.4
Debt held by the public	**49**	**39**	**36**	**38**	**59**	**90**	**130**	**181**	**249**

How does this discussion of exploding deficits relate to the congressional budget process? Well, one unexpected consequence of congressional budgeting is that, by repositioning the budgetary spotlight away from the President and onto Congress, the Budget Act has allowed Presidents to get away with increasingly irresponsible budgeting. You have just heard me criticize President Bush for his incomplete and disingenuous budget. But President Reagan had his "magic asterisk" – unspecified cuts to be proposed at a later time. The first President Bush had his "flexible freeze" and his "Black Box," two other terms for unspecified future spending cuts. President Clinton frequently employed mechanical formulas for his outyear appropriations numbers, allowing a downward path in total while denying that there was any "policy content" to any particular outyear budget cut. In short, while the Congressional Budget Act strengthened the congressional role in budget making, it also made it easier for Presidents to avoid the toughest decisions because the press and the public have had their budgetary attention diverted to the congressional spectacle. The Budget Act should come with a warning on the bottle: *"Side Effects May Include a Loss of Presidential Leadership. If this Condition Persists for More than Four Years…"*

This diagnosis poses an obvious question: has the improvement in congressional budgeting been great enough to justify the bad side effects? My answer is no. History demonstrates that good public policy is not the necessary result of the Congressional Budget Act. Broadly, the Budget

Act has given a determined majority more tools to get its way on budgetary matters and has allowed more coherent budget plans to be concocted and enacted. The Budget Act has helped strengthen the Leadership and weaken all committees; the Budget Act has helped diminish the role of individual members as citizen legislators and diminish the role of committees as repositories of acknowledged expertise. One result is that Congress – both the House and the Senate – are a giant step further from being deliberative legislative bodies and a giant step closer to being parliaments, whose main role is to ratify decisions made by its party leadership. Among other side effects, the Budget Act has helped foster partisanship, but without the useful British assumption that the minority is by definition loyal. To put this simply, the Budget Act makes it easier to implement budgets, whether irresponsible or responsible. When Congress makes mistakes, as it did in 1981, 2001, and 2003, the Budget Act facilitates bigger and costlier mistakes.

So let me make a modest proposal. I noted in my first point that many current budget process ideas would weaken Congress and strengthen the President. I concluded in my second point that the Budget Act has had at least two unfortunate side effects – increased presidential poltroonery and increased Congressional partisanship – *without* producing better budget outcomes. My suggestion, therefore, is to take these two points to their logical conclusion: repeal Title 3 of the Congressional Budget Act – abolish the Budget Committees, budget resolutions, allocations, reconciliation, and all that, and return to the days in which the President's budget was *the* budget, and Congress, in committee and on the floor, would act on the various presidential proposals piecemeal. (I would keep CBO, which seems an unalloyed good.) This proposal would strengthen the President more effectively than the many ideas I initially discussed, while getting rid of the unfortunate side-effects of the Congressional Budget Act.

However, because I do not expect this Committee to agree to self-immolation, and because I have too much residual affection for the constructive role of this Committee *can* play, in the remainder of my testimony I take a different approach to the budget process reform.

"Liquid Courage" versus "Do No Harm"

By 1985, the Congress had had enough of the outsized and permanent structural deficits caused by the 1981 Reagan tax cuts combined with the Reagan defense increases. In a fit of desperation, Congress enacted Gramm-Rudman-Hollings, a doomsday machine designed to produce automatic "sequestration" so unpalatable that even President Reagan would negotiate tax increases and defense cuts, while even a Democratic House would negotiate cuts in Democratic entitlement programs such as Social Security, Medicare, and Medicaid. Broadly speaking, GRH was a major failure. Serious negotiations did *not* occur. Instead, OMB and the Congress employed wildly unrealistic estimating assumptions and accounting gimmicks to pretend they were trying to meet the GRH targets. When the lies and gimmicks went beyond the capacity of even the most cynical to swallow, GRH was set aside.

Once Congress and President Bush (the first) agreed to scrap GRH, they also agreed on an ambitious plan of entitlement cuts, defense cuts, and tax increases. And they created a new structure to enforce that agreement, a structure of appropriations caps and a Pay-As-You-Go rule applied to future tax and entitlement legislation. Two rounds of deficit reduction that were *not* forced by the process, but whose outcomes were enforced by caps and PAYGO, plus an unfortunate increase in income inequality, led to eight years in a row of improved budget outcomes for the first time in US history, and four years in a row of balanced budgets.

The point of this history is to reinforce the conclusion that *no* budget process can make the President and Congress do the right thing, which is to take major and significant unpopular actions in the face of permanent structural deficits. The experience with GRH demonstrated the futility of that idea. The threat of automatic across-the-board cuts in popular programs is not enough to get antagonists to the bargaining table, because the threat can never be made credible. The more extreme the threat, the less credible it is. No matter how it is designed, the budget process cannot provide the "liquid courage" needed to make members take hard votes. Easy votes and press releases are so much more fun.

In this context, the entitlement cap included in a recent budget process proposal, HR 2290, is simply a worse and more unfair version of GRH, and is at least as likely to fail. That cap would require roughly $2 *trillion* in entitlement cuts over the next ten years. The cuts would be 20 to 30 times as great as those in the President's recent budget or this year's congressional budget plan, which are themselves politically troubling. This idea cannot work.

Nor should it work. Entitlement cuts of even a quarter this magnitude would significantly increase the number of Americans with no health insurance or with health insurance that covers only a small fraction of the costs of getting sick. The cuts would increase the depth of poverty for many children, elderly persons, working families, and persons with disabilities, and drive many others into poverty. It would threaten the disability benefits and pensions of veterans, the price stabilization programs for farmers, the unemployment benefits of those who are laid off, and the pension and disability benefits for all current and future federal retirees, civilian and military alike. Yet this approach to deficit reduction is completely one-sided: neither the entitlement cap nor any other aspect of HR 2290 would do anything to scale back the very generous tax cuts I have received, none of which I needed, or the far more extravagant tax cuts the very wealthy have benefited from.

What *can* work is a less ambitious but fairer budget process agenda, in which the rules are changed to diminish the ability of Congress to use the budget process to increase the structural deficit. I call this the "do no harm" approach.

My first and most significant suggestion is to reinstate the two-sided Pay-As-You-Go rule, which would provide a point of order against any legislation that either increases entitlement costs or decreases revenues, relative to current law, during the current and the budget year, the sum of the current year plus the next five years, or the sum of the current year plus the next ten years. This idea has been debated at some length recently and so does not need further elaboration, but the idea is still fundamentally meritorious in a time in which all reputable forecasts including those by OMB, CBO, and GAO show large, permanent, structural deficits. And despite the fact that a PAYGO rule is much less ambitious than, say, and entitlement cap, even a PAYGO rule won't hold unless both parties and both branches want it to.

I also recommend a less ambitious version of the PAYGO rule. Currently, the "Byrd Rule" prevents the Senate from using the fast-track reconciliation process to make the deficit greater in years *after* the budget window covered by the reconciliation directive. However, the Byrd Rule does not have such a restriction for years covered by the reconciliation directive – in those years, the Senate *can* use this mechanism to make the deficit worse. I recommend changing the rule so that reconciliation can only be used to enact legislation that, in net, *reduces* the deficit. That was its original use from fiscal 1980 through fiscal 1999.

I might add that HR 2290 is precisely wrong with respect to the reconciliation process; that bill would amend the Byrd Rule to allow reconciliation bills that permanently increase the deficit.

I have heard it suggested that PAYGO rules or reconciliation instructions should not apply to tax cuts because tax cuts "pay for themselves." This is utter nonsense. I recently examined average economic growth rates and average revenue growth rates over the course of the business cycles since World War II. The table below shows the results: economic growth during the 1980s, with its very low marginal income tax rates for the well off, was *no better and no worse* than growth during the 1990s, during which much higher marginal tax rates were imposed on the well off. And since real economic growth was the same during these two periods – an average of 2.0% per year per person – it follows that the tax cuts of the 1980s did essentially nothing to pay for themselves over the long run.

This can also be seen by looking at the average annual growth rate of revenues, and especially income tax revenues, over these periods. The tax increase of 1990 and 1993 generated substantial increases in revenues, while the tax cuts of 1981 and 2001 produced unusually low revenues. To put it most simply, tax cuts do not pay for themselves; all they do is lose revenues. The "starve-the-beast" crowd understands this perfectly well. After all, if tax cuts paid for themselves, they would in no way constitute a starvation diet. This is one fundamental way in which Grover Norquist is correct – tax cuts lose revenues. And *that* is why their cost must be covered within budget constraints such as Pay-As-You-Go rules.

Economic growth and revenue growth during selected periods

(All economic and revenue figures are expressed as average annual growth rates, adjusted for inflation and population growth, i.e., average real per-person growth rates).

Fiscal years	GDP growth	Growth of income tax receipts	Growth of payroll, excise, estate, & other tax receipts	Growth of total tax receipts	Growth of total tax receipts if capital gains are excluded
1948 – 1979	2.4%	1.8%	3.1%	2.3%	n.a.
1979 – 1990	2.0%	0.2%	2.9%	1.3%	1.3%
1990 – 2000	2.0%	4.2%	1.9%	3.2%	2.9%
2000 – 2015	2.0%	0.1%	0.8%	0.4%	0.6%

Note: revenue and economic projections through 2015 are from CBO and assume the 2001 and 2003 tax cuts will be extended and AMT relief will be enacted.